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Warren D. Hannah
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Sprint and Central Telephone Companies

EX PARTE

February 2, 1995

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Mr. William F. Caton
Acting Secretary
Federal Communications Commission
Room 222
1919 M Street, N.W.
Washington, D.C. 20554

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

RE: In the Matter of Price Cap Performance Review for Local
Exchange Carriers, CC Docket No. 94-1

Dear Mr. Caton:

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Today, representatives of Sprint Corporation met via videoconference with Mark Uretsky and Alexander Belinfante of the Common Carrier Bureau's Tariff Division. Information on the attached pages relative to Sprint's comments and reply comments submitted on May 9 and June 29, as amended in subsequent ex parte presentations, was discussed.

Representing Sprint Corporation were Jay Keithley and Warren Hannah in Washington, D.C. and Jim Sichter, John Ivanuska, Pete Sywenki, and Gary Lindsey in Overland Park, Kansas. Sprint requests that this information be made a part of the record in this matter. Two copies of this letter in accordance with Section 1.1206(a)(1) is provided for this purpose. If you should have any questions, please feel free to call.

Sincerely,

Warren D. Hannah

Attachment

cc: Mr. Mark Uretsky, FCC, Washington, D.C.
Mr. Alexander Belinfante, FCC, Washington, D.C.
Mr. Jay Keithley, SUMC, Washington, D.C.
Mr. Jim Sichter, SUMC, Westwood, KS
Mr. John Ivanuska, SUMC, Westwood, KS
Mr. Pete Sywenki, SUMC, Westwood, KS
Mr. Gary Lindsey, SUMC, Overland Park, KS

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Upfront Rate Reduction

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- Sharing of productivity gains from first price cap period
- Required of all price cap LECs (regardless of productivity choices under the second price cap plan)
- Equal to 1/2 of the difference between a LEC's 1991-1994 ROR and 11.25%
 - Company specific upfront reductions recognize each LEC's relative performance under first price cap plan
 - Upfront rate reduction would be credited against 1994 sharing
 - Mitigates rate churn due to reversal of 1994 sharing in 1996
 - IXC's still get, over 2 years, full benefits of both 1994 sharing and the upfront rate reduction
- Approximately equal to a 2% upfront rate reduction

Example of Upfront Rate Reduction Methodology

Assume:

	Upfront Rate Reduction	1994 Sharing	Upfront Credit against 1994 sharing	Net Sharing in 1995
Company A	\$8M	0	0	0
Company B	\$11M	\$4M	\$4M	0
Company C	\$9M	\$13M	\$9M	\$4M
Total	\$28M	\$17M	\$13M	\$4M

Rate Impact

	(Without Credit)			(With Credit)		
	<u>1995</u>	<u>1996</u>	<u>Total '95 - '96</u>	<u>1995</u>	<u>1996</u>	<u>Total '95 - '96</u>
Upfront Rate Reduction	(\$28M)	--		(\$28M)	--	
Net Sharing	(\$17M)	--		(\$4M)	--	
Reversal of Sharing	--	\$17M		--	\$4M	
Total Rate Charge	(\$45M)	\$17M	(\$28M)	(\$32M)	\$4M	(\$28M)

Productivity/Sharing Options

- Eliminate sharing/LFAM for LECs willing to opt for a high productivity factor
- Align productivity/sharing options to provide LECs incentive to elect progressively higher productivity offsets as their internal productivity increases
 - Requires addback methodology be used to calculate monitored ROR
- Annual productivity election
 - But once a LEC opts for 4.5%/no sharing, no reversion to lower productivity factor

Proposed Productivity/Sharing Matrix

Productivity Selection	Initial Sharing Threshold	50/50 Sharing Range	100% Sharing Range	LFAM
3.3%	11.75%	11.75 - 13.75%	>13.75%	10.25%
3.9%	12.25%	12.25 - 15.25%	>15.25%	10.25%
4.5%	-----	No Sharing/LFAM		-----

**Productivity/Sharing Relationships
under Sprint's Proposed Plan**
(Assumes a 1% change in productivity -
equates to a .5% change in ROR, and a base
ROR of 11.25%)

Productivity Election	3.3%	3.9%
Initial sharing threshold	11.75%	12.25%
<ul style="list-style-type: none"> • Additional productivity gains to reach sharing threshold • Total productivity achieved to reach sharing threshold 	<p>1.0%</p> <p>4.3%</p>	<p>2.0%</p> <p>5.9%</p>
50/50 sharing range	11.75% - 13.75%	12.25% - 15.25%
<ul style="list-style-type: none"> • Additional productivity gains for 50/50 sharing range • Total productivity gains for 50/50 sharing range 	<p>1.0 - 5.0%</p> <p>4.3 - 8.3%</p>	<p>2.0 - 8.0%</p> <p>5.9 - 11.9%</p>
100% sharing threshold	13.75%	15.25%
<ul style="list-style-type: none"> • Total productivity gain required to reach 100% sharing threshold 	8.3%	11.9%